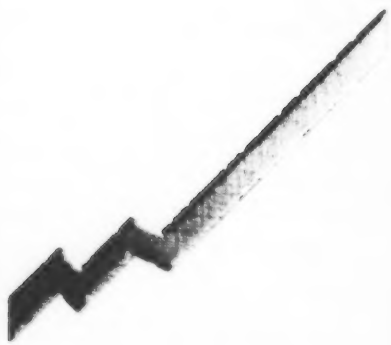
POTASH CORPORATION OF SASKATCHEWAN

1988 ANNUAL REPORT



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Potash Corporation of Saskatchewan with its annual productive capacity of 8.6 million tonnes looks ... ward to the future, eager to supply fertilizer market growth as more and more countries provide better diets for a growing world population.

Table Of Contents

Description of Business	3
Year at a Glance	3
Letter of Transmittal	4
Chairman's Message	5
President's Report	7
PCS Mining	11
Technical Services	15
Human Resources and Information Systems	17
PCS Sales	21
Finance	24
Management's Responsibility	25
Auditors' Report	25
Five Year Review	27
Financial Statements	28
Notes to Financial Statements	31
Officers	35
Board of Directors	35
Corporate Data	36

Table Of Graphs

Net Income by Quarter	3
Potash Production Capability by Producing Country	8
Potash Sales by Producing Country	9
1988 PCS Mining Production	12
Production Tonnage	13
Workforce Comparison	13
Accident Rate per 200,000 Hours Worked	18
Average Sales Price	22
Domestic Sales	23
Offshore Sales	23
Sales Tonnage	26
Gross Revenue	26
Operating Income	26
Net Income	26
Shareholder's Equity	26
Return on Equity After Tax	26

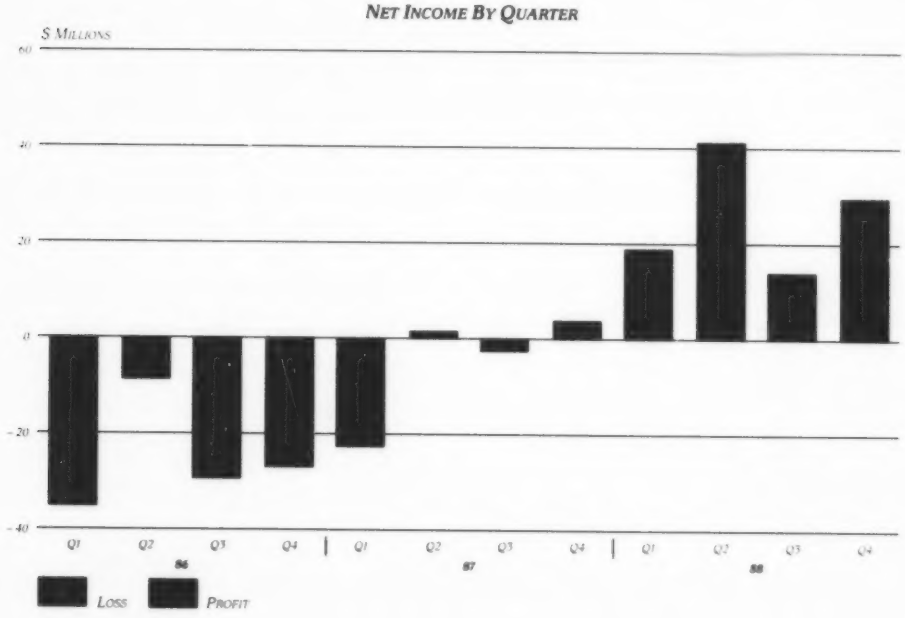
Description Of Business

Potash Corporation of Saskatchewan, through its subsidiaries, PCS Mining and PCS Sales, is the largest producer and exporter of potash in the western world. PCS Mining owns, operates or has an interest in five mines, all located in the Province of Saskatchewan. These mines have an annual productive capacity of 8.6 million tonnes, which represents virtually half the Saskatchewan total. The province contains 40 percent of known worldwide reserves. Ore reserves owned by PCS Mining and accessible from current shafts will permit production at present rates for over 200 years at most of the corporation's mining divisions. PCS Sales markets and distributes all product produced by PCS Mining. Offshore sales are handled by Canpotex Limited, jointly owned by Saskatchewan potash companies. PCS Sales is entitled to supply 49 percent of the total volume. For the domestic market, which includes customers in Canada and the United States, PCS Sales maintains its own sales network.

Year At a Glance

	1988	1987	Variance
Financial ($millions)			
Gross Revenues	367.8	261.4	106.4
Costs & Expenses	228.3	233.5	(5.2)
Operating Income	139.5	27.9	111.6
Net Income	106.1	(20.7)	126.8
Return on Equity	9.0%	(2.5%)	11.5%

Net Income By Quarter



Letter of Transmittal

March 1989

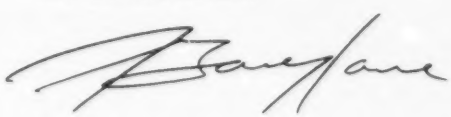
To Her Honour
The Honourable Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of Saskatchewan

Your Honour:

I have the honour to submit the Annual Report of Potash Corporation of Saskatchewan for the year ended December 31, 1988, including the financial statements in the form required by the Treasury Board and duly certified in accordance with The Potash Corporation of Saskatchewan Act.

I have the honour to be

Your obedient servant,



J. Gary Lane, Q.C.
Minister in Charge
Potash Corporation of Saskatchewan

Message From The Chairman Of The Board

In the 1987 Chairman's Message, I extended my thanks and admiration to the employees of Potash Corporation of Saskatchewan and its subsidiaries, PCS Mining and PCS Sales. I suggested that we were in a position where we could look to the future with confidence and by working together we could build a stronger, more productive and profitable corporation. In 1988 those things began to happen.

Under the leadership of our President and Chief Executive Officer Charles E. Childers and, through the efforts of our management team and dedicated employees, PCS became a strong corporation in 1988. We had a price recovery and a record sales year. We also became more productive, setting records for production, cost effectiveness and safety. Finally, with a net income of $106 million, we definitely became a more profitable corporation.

The Board of Directors, which met six times in 1988, demonstrated its reaction to the turnaround this past year when it unanimously passed the following motion at our meeting on January 26, 1989: ". . . the board recognizes and congratulates PCS management and employees for achieving record sales, production, safety, productivity and a return to profitability in 1988."

As we review the 1988 results with some satisfaction, we are looking ahead to 1989 with optimism. We have proven we have the management, the people and the product to be a highly successful industry leader. With positive marketplace forecasts in front of us, we believe PCS can continue to improve its position in 1989.

Paul Schoenhals

Paul Schoenhals
Chairman of the Board

Report From The President & CEO

I am pleased to report that Potash Corporation of Saskatchewan had a net income of $106 million in 1988. This is an improvement of $127 million over 1987 and $209 million over 1986. Operating income, before interest and taxes, was $139 million, compared with $28 million in 1987 and an operating loss of $47 million in 1986. Gross revenue was $368 million compared with $261 million in 1987 and $155 million in 1986.

PCS Mining had a remarkable year. A decision regarding excess capacity was made and executed, resulting in reduced production at PCS Mining Cory Division. The layoff of experienced and valuable employees was an unpleasant but necessary task. Nonetheless, a record 5.089 million tonnes were produced, more than a half million tonnes over the previous record tonnage of 1987. At Rocanville and Lanigan Divisions, every daily, monthly and yearly production record was broken. New records for high efficiency and low costs were established at every division. Tonnes produced per person-shift worked have doubled since 1985 and the production cost per tonne has been reduced by $10.00 during the same period.

However, I am most proud of the safety achievements of PCS Mining employees. For the third consecutive year, the Allan Division team won the Provincial Mine Rescue Competition. At Rocanville Division, employees completed the entire year without a lost-time accident, making them a leading contender for the prestigious John T. Ryan trophy to be awarded in May, signifying the safest mine in Canada.

Every division had a lower lost-time accident frequency than the year before. The Allan Division dropped from 35 lost-time accidents in 1986 to 15 in 1987 to a record low of two in 1988, a truly outstanding achievement.

In short, PCS Mining produced record tonnes with record high efficiencies, record low costs and outstanding safety figures.

PCS Sales also had a record year. Sales of 4.728 million tonnes exceeded by more than 50,000 tonnes our previous record, established in 1987.

The offshore market was particularly strong in 1988. Canpotex Limited, the export

sales corporation for six Saskatchewan potash companies, including PCS Sales, sold more potash than in any previous year. Record tonnage was sold to seven countries: China, Korea, Malaysia, Taiwan, Argentina, Chile and Italy. Prices were improved over 1987.

The increased sales to China are the result of strong marketing by Canpotex in conjunction with extensive research work and field tests conducted by Potash & Phosphate Institute, another organization strongly supported by PCS and its subsidiaries.

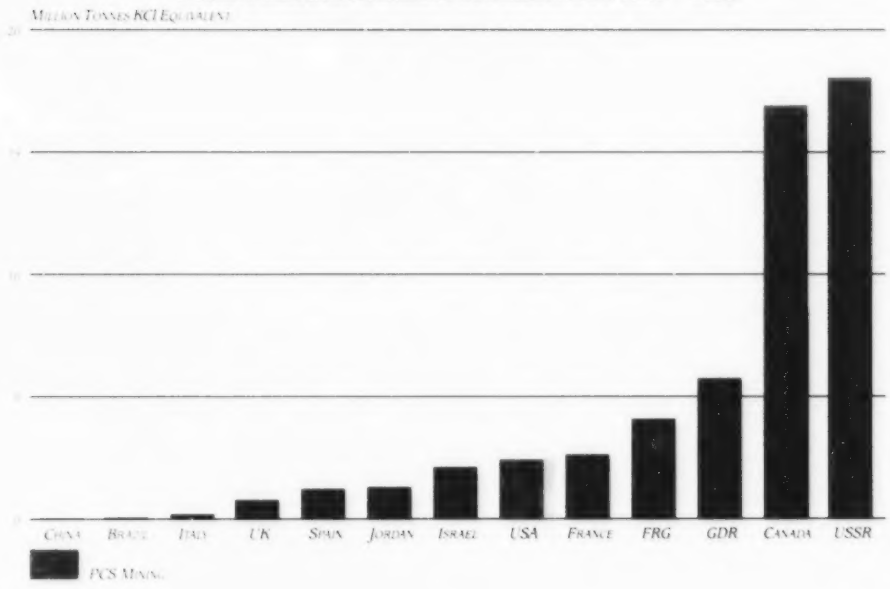
The domestic market was characterized by consistent prices, which stabilized early in the year. These higher prices in the United States attracted increased production from U.S. producers, who also concentrated more on the domestic market and less on export markets. Offshore producers began to ship more tonnage to the United States as well. As a result, sales to North America by Saskatchewan producers were 6.48 million tonnes, down 11 percent from 1987 sales. PCS Sales' volume in North America was down accordingly.

PCS continued to sell potash to Potash Company of America to replace lost production of the PCA Patience Lake mine.

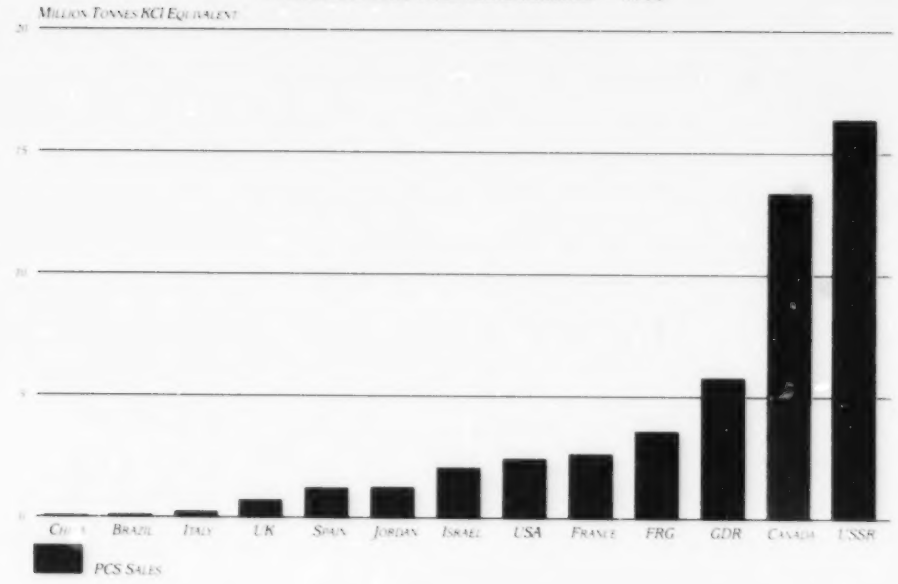
In 1988, PCS paid a dividend of $4.6 million to Crown Investments Corporation in addition to a payment of $42.7 million as a reduction of equity held by CIC. We ended the year with $101.4 million in long-term debt, no short-term debt, and cash assets of $73.0 million.

Our outlook for 1989 is positive. The severe drought of 1988 has resulted in the

POTASH PRODUCTION CAPABILITY BY PRODUCING COUNTRY — 1988



POTASH SALES BY PRODUCING COUNTRY – 1988



depletion of grain stocks and most analysts are predicting a 10 percent increase in U.S. planted acres in 1989. Even with increased competition for the U.S. market, we are looking for increased sales into North America in the coming year.

Although we are reluctant to forecast a third consecutive record year for offshore sales, we expect this market to remain strong in 1989.

However, there are some clouds on the horizon. There is a movement in the United States by supporters of low-input agriculture, suggesting that fertilizer and pesticide consumption should be reduced. Most scientific investigations suggest that sustainable agriculture is best achieved through the use of the most efficient application of fertilizer. It is important that the facts concerning the proper use of fertilizer be publicized and communicated to the agricultural community. Two organizations strongly supported by PCS are actively engaged in this effort. Both The Fertilizer Institute and Potash & Phosphate Institute have given top priority to the dissemination of information concerning this vital issue.

We look forward to the future, eager to take advantage of market growth as more and more countries provide better diets for a growing world population. PCS, through its nearly four million tonnes of excess annual capacity, is well positioned to respond to this anticipated increase in world demand for potash.

C E Childers

C.E. Childers
President & Chief Executive Officer

Record Tonnes With Record Efficiencies Produced By PCS Mining

In 1988, PCS Mining operations produced a record 5.089 million tonnes, up .579 million tonnes from the previous record established in 1987. This total tonnage comes from five geographically distinct potash mining operations, which have an annual productive capacity of 8.6 million tonnes.

Overall, PCS Mining properties have recorded their third consecutive improvement in annual productivity and operating unit costs. Productivity was up 25 percent over last year. Safety performance, greatly improved during 1987, continued to show excellent results with lost-time injuries down 65 percent this year.

During 1988, many new performance records were set and reset at the corporation's mining divisions. Management views with pride the continuing strong performance of its employees in these important areas.

All divisions took an annual four week vacation shutdown during the summer of 1988. In addition, inventory correction shutdowns were taken at Cory and Lanigan Divisions during January.

PCS MINING ALLAN DIVISION is 60 percent owned by the corporation with the remainder held by Saskterra Fertilizers Ltd. Production at the division in 1988 was 1.053 million tonnes compared with .808 million tonnes in 1987. Under the terms of an agreement between the two owners, PCS Mining's

production share was .547 million tonnes.

The plant operated on a three-shift basis (operating 10 days out of 14) with 328 employees at year-end. For the second consecutive year, the division recorded significant improvements in safety and productivity.

PCS Mining Allan Division again won the Provincial Mine Rescue Competition. This was the eighth time and the third consecutive win for the Allan team and management congratulates all team members on their success.

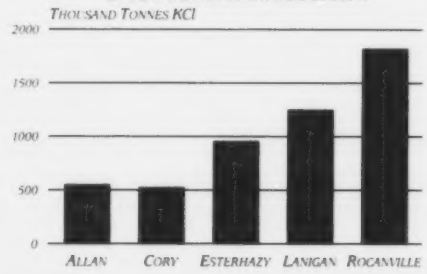
PCS MINING CORY DIVISION produced .522 million tonnes compared to .768 million tonnes last year.

The division had an active employment of 111 employees at year-end, a reduction of 199 employees from a year ago.

Over the summer, PCS Mining Cory Division was downsized to produce only white crystallizer products in order to better balance supply with market requirements. The crystallizer plant operated at planned output during the second half of the year. Operations at the sulphate of potash demonstration plant were temporarily suspended in June and the corporation is reviewing the future of the plant.

PCS MINING ESTERHAZY DIVISION product comes from ore reserves owned by the corporation at Esterhazy and is produced under a long-term mining and processing agreement with International Minerals and Chemical Corporation (Canada) Limited.

1988 PCS MINING PRODUCTION



1988 production volumes at Esterhazy Division for PCS Mining were .953 million tonnes compared with .975 million tonnes last year. Water inflow, which began at the K-2 mine in December 1985, is being monitored and controlled. Drilling and grouting programs continue to combat the inflow.

Two PCS Mining employees coordinate loading and shipping at Esterhazy Division.

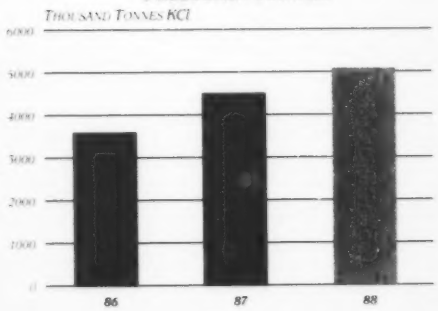
PCS MINING LANIGAN DIVISION productivity was up over 50 percent during 1988. It produced a record 1.249 million tonnes during the year, compared with .612 million tonnes in 1987.

The new Phase II mill performed exceptionally well and has exceeded design expectations. It operated on a three-shift basis and employment at year-end was 316 employees. The Phase I mill is available for operation if additional capacity is required.

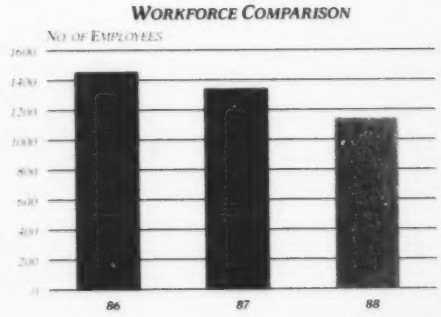
PCS MINING ROCANVILLE DIVISION produced record tonnage of 1.818 million tonnes in 1988. This compares to the previous production record of 1.670 million tonnes set in 1987. The division continued to operate on a four-shift (continuous) basis throughout the year.

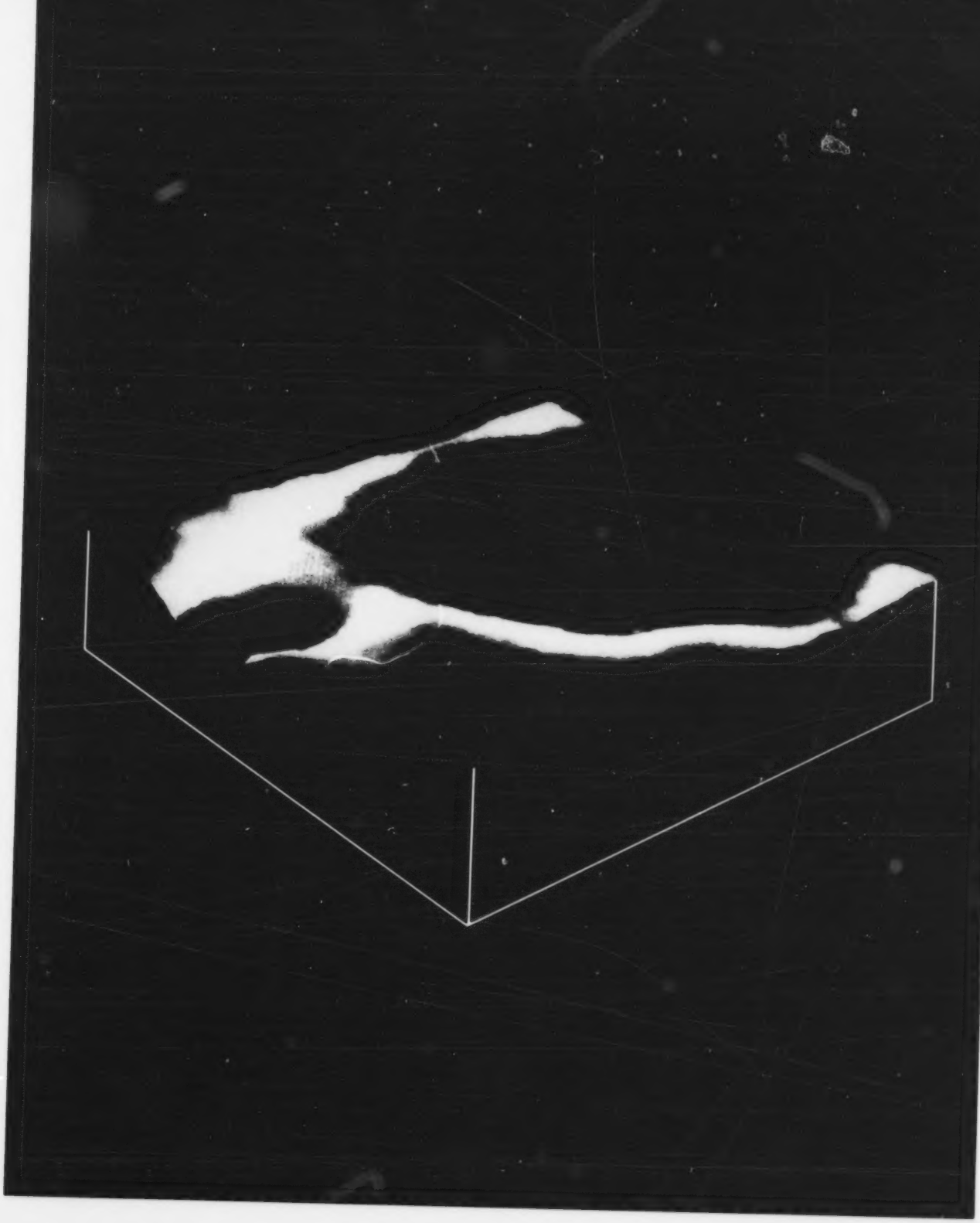
Rocanville Division's safety performance was excellent during 1988, as employees completed the year without a lost-time injury. Productivity improvements were recorded for the third consecutive year. Employment at PCS Mining Rocanville Division was 357 people at the end of 1988. The truck loading facility was heavily utilized and a record 11,083 trucks were loaded.

PRODUCTION TONNAGE



WORKFORCE COMPARISON





Technical Services Enhances Safety, Productivity and Quality

In order to improve safety, productivity and product quality, the Technical Services department develops new technologies and incorporates other industry technologies to potash. The specialties of earth sciences and mining, process development, environmental affairs, electrical engineering and project management are instrumental in achieving these goals.

Safety and productivity are the driving forces behind the automation programs. The Alpine mining machine was successfully converted to remote control. The machine can now be operated at a distance which reduces exposure to heat, noise, dust and possible hazardous ground conditions.

Productivity improvements are also being realized at PCS Mining Rocanville Division with machine-mounted ore grade analyzers known as "Beartrackers". The Beartracker research prototype was converted by Rocanville Division engineers to a reliable unit for production boring machines. This is a significant achievement toward the goal of maximum recovery of available potash from the mined rooms.

Geophysical tools such as radar, electromagnetic surveys and numerical modelling techniques are being used to predict ground conditions for safe and secure mining. Three-dimensional seismic methods employed by the oil and gas industry successfully detected

a geological anomaly at one division that conventional means had previously failed to detect.

On-stream analyzers have been developed to improve operator control and process recovery. A new analyzer system measuring the K_2O content of critical process streams was installed and commissioned at PCS Mining Lanigan Division. Similar installations are planned for Cory and Allan Divisions. Technology is being developed for on-stream sensing devices to measure the magnesium content of mill ore feed at Rocanville Division and to monitor saturation for crystallizer control to further enhance recovery.

Technical Services has developed processes for producing sulphate of potash and other potassium based compounds. The demonstration plant at Big Quill Lake continued to produce high grade SOP for the Canadian wallboard industry.

Research into potash product quality at the Saskatoon research facilities has led to standards and equipment adopted by the Saskatchewan industry for performance testing of materials. As a participant in the Saskatchewan Potash Producers Association research program in offshore product quality, the corporation constructed and operated in its laboratories an environmental chamber that simulated climatic conditions that potash encounters en route to customers. High power electron microscopy techniques were used to study variations within potash materials and to give insight into basic changes that occur when potash is subjected to environmental stress.

Technical Services staff continues to lead and actively participate in a broad range of research projects at Canadian universities. Studies at McGill, Queen's, Manitoba, Saskatchewan, Regina and British Columbia have contributed new knowledge for improvement of the potash industry.

Safety, productivity improvements, product quality and environmental controls will continue to be the goals of the corporation's scientific research and development department.

Continuing Achievements in Human Resources and Information Systems

Corporate Affairs and Human Resources, a department encompassing public affairs, human resources and information systems, provides policy direction and administrative services to the corporation.

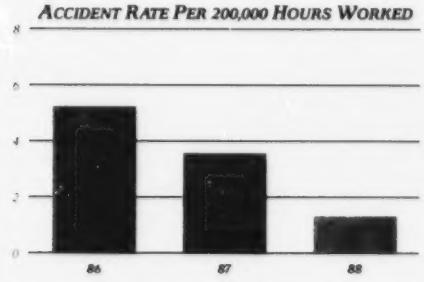
The department serves as a liaison between the corporation and its employees. This is demonstrated by the Employee and Family Assistance Program which is a confidential and professional counselling and treatment service provided to employees and their families. Corporate Affairs and Human Resources also handles all media relations, publishes an internal newsletter and coordinates employee information postings. These programs are part of an ongoing effort to improve internal communications and employee morale. Under the same umbrella falls the corporation's administration department which provides many service functions such as purchasing, insurance and travel for PCS and its subsidiaries.

SOCIAL COMMITMENT on the part of PCS manifests itself in various ways. The corporation encourages employee participation in community oriented activities. Many employees belong to professional and educational associations, address seminars, advise youth in business and participate in various other capacities to better their communities. Contributions to charitable causes are also supported by PCS.

HUMAN RESOURCES records showed a 13 percent reduction in the staff of Potash Corporation of Saskatchewan and its subsidiaries at year-end. Much of this was due to downsizing at PCS Mining Cory Division. As a result, a comprehensive program was initiated to assist in finding new jobs for the employees affected. A joint committee consisting of both company and union representatives, under an independent chairman, was set up in co-operation with Employment and Immigration Canada to assist those involved. This substantial effort allowed many to find work or participate in pre-employment training by year-end.

A significant improvement in safety performance was recorded. Overall lost-time accidents were dramatically reduced to 17 from 49 the previous year. Time lost through absenteeism fell by 12 percent from 1987 and grievances dropped by over 30 percent.

A new flexible benefits program for staff employees was introduced and will be implemented in early 1989. The program is designed to allow employees to choose benefits which fit individual needs and requirements.



INFORMATION SYSTEMS is the department responsible for the computer communications network. The network, which continued to increase in size and speed, now encompasses all five PCS Mining divisions, PCS head office, PCS Sales Chicago office, PCS Sales district managers' offices, and warehouses in both Canada and the United States.

To increase efficiency and ease of communication, the PCS Sales marketing system was converted to the corporate database and teleprocessor standard. As a result, a district manager in the field using a portable computer can now access a customer's invoice and current accounts receivable information.

The challenge for the future is continued application of information technology to increase productivity and decrease costs.

Price Recovery And Record Tonnage For PCS Sales

For PCS Sales, 1988 was a year in which the foundations were laid for recovery.

The U.S. antidumping investigation regarding potash from Canada was suspended in January 1988, pursuant to an agreement signed by the U.S. Department of Commerce and eight Canadian potash companies. The agreement suspended the investigation until January 1993, during which time the producers are subject to certain obligations set forth in the agreement.

In North American markets, the drought in the summer of 1988 resulted in a drop in production of major crops such as corn, soybeans and wheat. This led to lower inventories, higher prices and the prospect of increased planted acres in 1989. In essence, the drought accelerated the return of idled acres to production by about three years.

In offshore markets, Canpotex Limited achieved record sales in 1988. A major element in that achievement was a record Canpotex sale to China of 1.250 million tonnes. The continued position of Canpotex in the Chinese and other major international markets is particularly important to PCS Sales, which supplies half of the product Canpotex markets offshore.

TOTAL SALES in 1988 were 4.728 million tonnes. This is a record, surpassing 1987 total sales by slightly more than 50,000 tonnes. Total sales by Canadian producers

in 1988 were 13.181 million, 2.6 percent over 1987.

NORTH AMERICAN SALES totalled 2.385 million tonnes, including tonnage sold to Potash Company of America. Canadian producers as a whole sold 6.964 million tonnes in North America, 10.1 percent below 1987 levels.

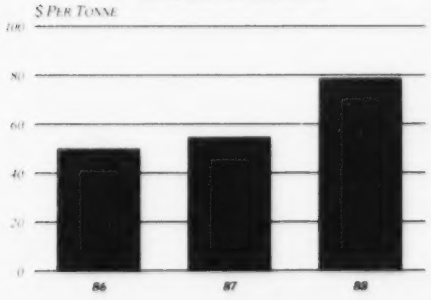
Several factors influenced the level of sales to North American markets. First, sales which might have been expected in the early part of 1988 appear to have been made in late 1987. This was largely in response to the uncertainty created by the antidumping investigation.

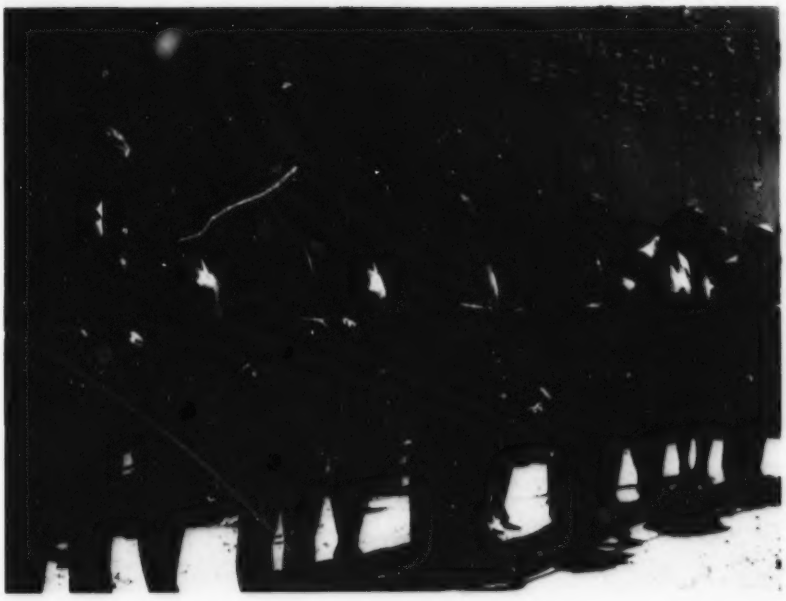
Second, U.S. producers maintained an increased level of North American sales in 1988 and offshore producers increased their sales in the U.S. by several hundred thousand tonnes.

Third, acreage planted in the spring of 1988 was only slightly higher than in the previous year. Agricultural consumption of potash in the fertilizer year ending June 30, 1988 increased only 2.2 percent over the previous year.

For 1989, industry sources predict an additional 30 million acres to be planted in the U.S. This would represent a 10 percent increase over 1988 and consumption of all fertilizer nutrients would be expected to rise accordingly.

AVERAGE SALES PRICE





OFFSHORE SALES made through Canpotex Limited reached a record 2.343 million tonnes in 1988. This surpassed the 1987 record of 2.091 million tonnes. Overall, Canpotex sales of 4.717 million tonnes exceeded its 1987 record by about .540 million tonnes.

While the long-term outlook is positive, offshore sales have traditionally been cyclical and year-to-year fluctuations will occur. The sustained strength of major markets such as China and the success of market development initiatives bode well for the future.

In 1988, C.E. Childers, as Chairman of Canpotex Limited, participated in the official opening of a bulk blending plant in China. The plant is located on the Huangpu River outside Guangzhou. It will blend 80,000 to 100,000 tonnes of fertilizer annually in NPK ratios developed by the Soils Institute of Guangdong province. This plant, a gift of the people of

Canada and Canpotex, was the result of a project jointly sponsored by Canpotex, Potash & Phosphate Institute and the Government of Canada.

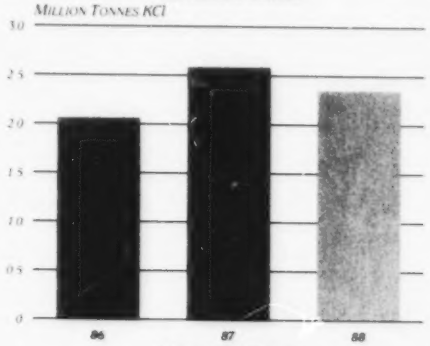
PCS Sales is the largest supplier of potash to Canpotex. The success of both companies is closely intertwined. The enhancement of Canpotex's delivery capability has been a major focus during 1988, and PCS Sales has been active in ensuring that this capability is strengthened as offshore demand increases.

OPERATIONS, at year-end, were carried out by 60 employees in PCS Sales, 26 in Chicago and various field locations in the U.S. and 34 in Saskatoon. The Chicago office is the center of all U.S. agricultural sales activity and the Saskatoon office is the center of Canadian and industrial sales, sales administration, transportation, marketing services and market research.

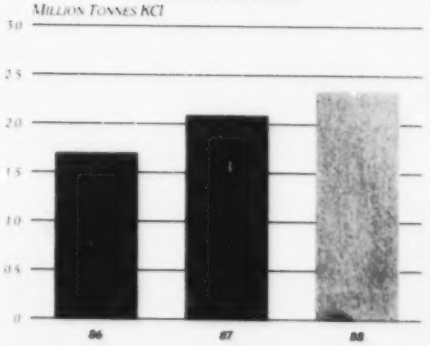
PCS Sales owns and staffs two warehouses in the U.S., at Fort Dodge, Iowa and Burns Harbor, Indiana. The corporation also owns storage facilities in Quebec, Ontario, Michigan and Missouri. These and other leased facilities have a storage capacity in excess of 500,000 tonnes. Together with a fleet of over 900 rail cars, they provide a system which integrates rail, water and road transportation to deliver potash to customers in North America.

The corporation also maintains ownership of a warehouse at Vancouver Wharves, a bulk terminal in Vancouver which handles potash for Canpotex. PCS Sales, along with other Canpotex members, holds an equity position in Canpotex Bulk Terminals Limited. Canpotex Bulk Terminals, in turn, owns a share of Neptune Bulk Terminals (Canada) Ltd. in Vancouver, a shipper-owned terminal handling potash and other bulk materials.

DOMESTIC SALES



OFFSHORE SALES



Finance Guides Growth and Performance

The objective of the Finance department is to provide management with up-to-date and relevant financial information on which to base decisions. To accomplish this, the department is committed to upgrade its financial systems and meet growing demands. In 1988, a new payable and receivable system was implemented which not only improved efficiency and cash management, but will also enable PCS to proceed to electronic data interchange.

PCS completed 1988 in a very healthy financial position. This improvement is not only the result of the turnaround in potash prices, but also the consistent effort by management to optimize the return on assets. Working capital ratios improved from 2:1 in 1987 to 5:1 in 1988 because product inventory turns per annum went from five in 1985 to nine in 1988. The average number of days on outstanding receivables was dramatically improved by implementing net 15-day terms. Another contributing factor was minimizing funds tied up in prepaid freight by controlling levels of product inventories at off-site warehouses.

The corporation's current strong cash position has allowed it to take advantage of rising interest rates to maximize investment returns. The strengthening Canadian dollar has been detrimental, as the majority of sales are made in U.S. dollars. However, careful management of foreign exchange allows the corporation to respond as the Canadian dollar fluctuates in value.

The Finance department has developed sophisticated modelling techniques to assess and compare various operating modes, taking into consideration product costs, market demand, transportation and taxes. This information enables management to make timely and informed decisions to maximize profits.

Management's Responsibility

The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The corporation maintains appropriate systems of internal control, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect properly authorized transactions of the corporation.

The corporation's independent auditors, Deloitte Haskins & Sells, have been appointed to express an opinion as to whether these financial statements present fairly the corporation's financial position and operating results in accordance with generally accepted accounting principles consistently applied. Their report is included.

The Board of Directors has reviewed and approved these financial statements. To assist the board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

B.E. Humphreys
Vice-President
Finance & Accounting

Auditors' Report

To the Members
Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statement of financial position of Potash Corporation of Saskatchewan as at December 31, 1988 and the consolidated statements of income and retained earnings and of cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

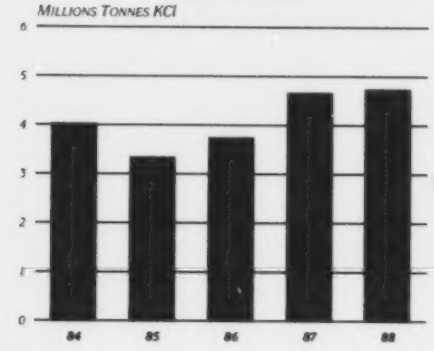
In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

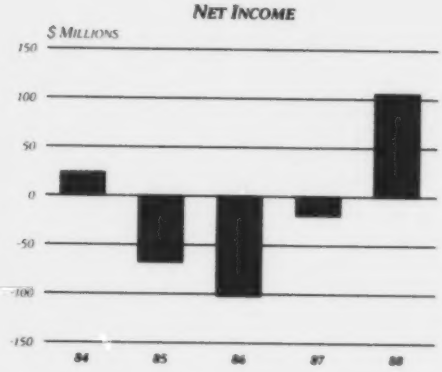
Chartered Accountants
January 27, 1989
Saskatoon, Saskatchewan

Five Year Graphs

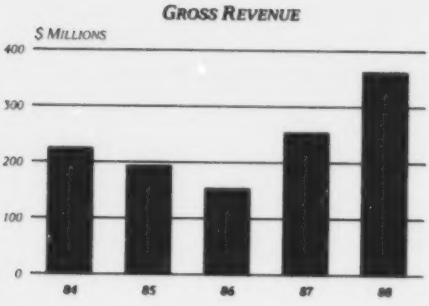
Sales Tonnage



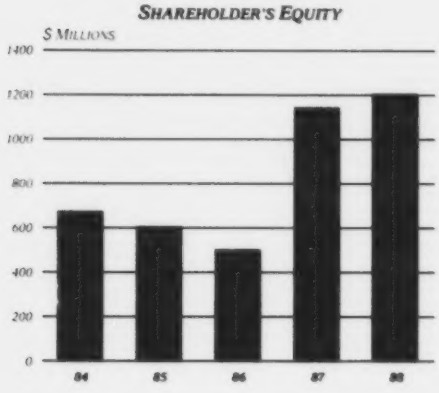
Net Income



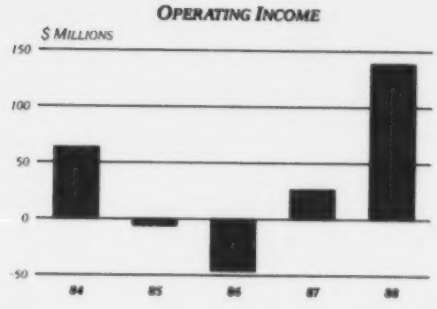
Gross Revenue



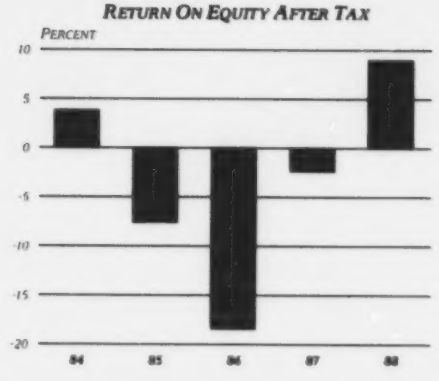
Shareholder's Equity



Operating Income



Return On Equity After Tax



FIVE YEAR REVIEW

(All Figures are Expressed in Thousands Unless Otherwise Specified)

	1988	1987	1986	1985	1984
Production – KCl Tonnes					
Allan Division	**547**	485	517	388	569
Cory Division	**522**	768	772	563	743
Esterhazy Division	**953**	975	669	774	965
Lanigan Division	**1,249**	612	165	618	867
Rocanville Division	**1,818**	1,670	1,478	903	1,358
Total PCS Mining	**5,089**	4,510	3,601	3,246	4,502
Total Canadian Producers	**13,651**	11,913	10,980	10,882	12,703
Sales – KCl Tonnes					
North America	**2,385**	2,585	2,062	2,073	2,204
Offshore	**2,343**	2,091	1,703	1,291	1,849
Total PCS Sales	**4,728**	4,676	3,765	3,364	4,053
Total Canadian Producers	**13,181**	12,847	11,527	10,696	11,587
Financial ($)					
Gross Revenue	**367,794**	261,440	155,327	197,311	227,797
Operating Income	**139,488**	27,912	(47,007)	(6,880)	65,044
Provincial Taxes	**19,875**	12,663	13,309	10,773	17,692
Interest Expense	**13,493**	35,961	43,084	31,986	22,003
Net Income (Loss)	**106,120**	(20,712)	(103,400)	(68,733)	25,349
Dividends Declared	**4,623**	–	–	–	12,000
Gross Payroll & Benefits	**53,423**	57,174	58,367	60,668	67,071
Capital Expenditures Including Capitalized Interest (Net)	**5,497**	20,359	59,719	95,375	113,931
Cash Flow From Operations	**135,731**	27,494	(12,912)	20,048	57,160
Working Capital	**162,928**	74,379	(29,250)	(107,274)	33,868
Long-Term Obligations	**101,412**	107,526	662,414	446,970	455,464
Shareholder's Equity	**1,206,120**	1,147,284	505,889	609,289	678,022
Return on Equity – Pretax	**10.7%**	(1.0%)	(16.16%)	(6.04%)	6.72%
– After Tax	**9.0%**	(2.5%)	(18.54%)	(7.71%)	3.96%
Employees at Year-End (Actual Numbers)	**1,273**	1,466	1,668	1,756	1,917

1988 Quarterly Results	Q1	Q2	Q3	Q4
Sales – KCl Tonnes	1,205	1,465	895	1,163
Production – KCl Tonnes	1,303	1,446	963	1,377
Gross Revenue	85,706	113,883	73,207	94,998
Net Income	19,347	42,188	14,366	30,219
Cash Flow From Operations	39,407	28,929	34,572	32,823

Consolidated Statement of Financial Position

As At December 31

In Thousands

	1988	1987
Assets		
Current Assets		
Cash	$ 2,228	$ –
Short-term deposits	70,725	31,348
Accounts receivable	56,821	46,684
Inventories (Note 2)	48,919	40,715
Deposits and prepayments	20,426	15,694
	199,119	134,441
Fixed assets (Note 3)	1,131,025	1,163,216
Deferred charges and investment (Note 4)	13,579	17,215
	$1,343,723	$1,314,872
Liabilities		
Current Liabilities		
Short-term debt	$ –	$ 24,962
Accounts payable and accrued charges	30,708	30,101
Current portion of long-term debt	596	650
Current obligations under capital leases	4,887	4,349
	36,191	60,062
Long-term debt (Note 5)	6,441	7,669
Obligations under capital leases (Note 6)	94,971	99,857
	137,603	167,588
Equity		
Province of Saskatchewan equity advances (Note 7)	1,100,000	1,142,661
Retained earnings	106,120	4,623
	1,206,120	1,147,284
	$1,343,723	$1,314,872

Consolidated Statement of Income and Retained Earnings

For the Years Ended December 31

In Thousands

	1988	1987
Income (Loss)		
Sales	$ 364,802	$ 256,198
Foreign exchange	(5,798)	(1,301)
Interest and other	8,790	6,543
	367,794	261,440
Costs and Expenses		
Operating costs other than those shown below	149,974	165,357
Depreciation and amortization	40,691	35,061
Research and development	2,220	3,264
Selling, distribution and administrative	35,421	29,846
	228,306	233,528
Operating Income	139,488	27,912
Interest expense (Note 8)	13,493	35,961
Income before taxes	125,995	(8,049)
Provincial mining taxes (Note 9)	19,875	12,663
Net Income	106,120	(20,712)
Retained earnings – beginning of year	4,623	25,335
Dividends	4,623	–
Retained earnings – end of year	$ 106,120	$ 4,623

CONSOLIDATED CASH FLOW STATEMENT

For the Years Ended December 31

	In Thousands	
	1988	**1987**
Operating Activities		
Operating income	**$ 139,488**	$ 27,912
Provincial mining taxes	**(19,875)**	(12,663)
Non-cash items, depreciation & amortization	**38,584**	30,210
Increase in non-cash working capital	**(22,466)**	(17,965)
Total cash inflow from operations	**135,731**	27,494
Financing Activities		
Long-term obligations, repaid	**(5,630)**	(559,446)
Interest expense (Note 8)	**(13,493)**	(35,961)
Equity (repayment) advance (Note 7)	**(42,661)**	662,107
Dividend paid	**(4,623)**	–
Net cash (outflow) inflow from financing activities	**(66,407)**	66,700
Investing Activities		
Additions to fixed assets – sustaining	**2,905**	3,798
fixed assets – plant construction	**2,592**	16,561
Reduction of deferred charges	**(2,740)**	(7,272)
Net cash outflow from investing activities	**2,757**	13,087
Increase in cash	**66,567**	81,107
Cash (short-term debt), beginning of year	**6,386**	(74,721)
Cash, end of year	**$ 72,953**	$ 6,386
Cash consists of:		
Cash	**$ 2,228**	$ –
Short-term deposits	**70,725**	31,348
Short-term debt	**–**	(24,962)
	$ 72,953	$ 6,386

Note 1

Significant Accounting Policies

The corporation's accounting policies are in accordance with generally accepted accounting principles. The following policies are considered to be significant:

Principles of Consolidation

The consolidated financial statements include the accounts of the corporation and the wholly owned subsidiaries:

- Potash Corporation of Saskatchewan Sales Limited (PCS Sales)
  PCS Sales (Iowa), Inc.
  PCS Sales (Indiana), Inc.
- Potash Corporation of Saskatchewan Mining Limited (PCS Mining)
- Potash Corporation of Saskatchewan Transport Limited (PCS Transport)

PCS Transport has a 64 percent interest in Canpotex Bulk Terminals Limited which is accounted for by the equity method.

Inventories

Inventories of product are valued at the lower of average cost or net realizable value. Cost is determined using the first in, first out (FIFO) method and is based on the monthly average of mine production costs. Inventories of materials and supplies are valued at the lower of average cost or replacement cost.

Fixed Assets

Fixed assets are carried at cost. Costs of additions, betterments and renewals are capitalized.

Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred. Interest associated with major capital projects is capitalized during the construction period at the corporation's average cost of long-term debt, and is included in the total cost of the project.

Depreciation and Amortization

Depreciation and amortization are provided on a basis and at rates calculated to amortize the cost of the fixed assets over their estimated useful lives, as set out below:

	Depreciation or Amortization Basis	Approximate Rate
Head Office		
Furniture, equipment and leasehold improvements	Straight-line	10%
Automotive equipment	Straight-line	20%
Mines		
All mine assets	Units of production	
Off-site Storage Facilities		
Buildings, roads and sites	Straight-line	4%
Equipment	Straight-line	8%

Research and Development Costs

Research costs are charged to expense as incurred.

Development costs are capitalized until a project is determined not to be technically or economically feasible and no future benefit to the corporation exists, at which time the costs are expensed.

Deferred Charges

Issue costs of long-term obligations are amortized over the term of the related liability.

Other costs which are capitalized are amortized over the estimated useful life of the project to which they relate.

Note 1 (continued)

Leases

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the corporation are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with the related long-term obligation. Equipment acquired under capital leases is being depreciated on the same basis as other fixed assets. Gains or losses resulting from sale-leaseback transactions are deducted from the cost of equipment under capital lease and amortized on the same basis as the related asset. Rental payments under operating leases are charged to expense as incurred.

Note 2

Inventories

	In Thousands	
	1988	1987
Product	$ 25,426	$ 16,041
Raw ore	–	1,688
Materials and supplies	23,493	22,986
	$ 48,919	$ 40,715

Note 3

Fixed Assets

	In Thousands	
	1988	1987
Land	$ 20,215	$ 19,737
Buildings and improvements	431,067	431,067
Machinery and equipment	683,822	667,422
Plant under construction	4,886	10,840
Deferred exploration and development costs	199,784	205,305
Equipment under capital lease	107,928	107,835
	1,447,702	1,442,206
Less: Accumulated depreciation and amortization	316,677	278,990
	$1,131,025	$1,163,216

Note 4

Deferred Charges and Investment

	In Thousands	
	1988	1987
Deferred charges, net		
Issue costs, long-term obligations	$ 515	$ 615
Preproduction costs	2,605	3,034
Research studies	6,024	7,395
Esterhazy brine leak costs	3,470	5,206
	12,614	16,250
Investment, at equity	965	965
	$ 13,579	$ 17,215

Note 5

Long-Term Debt

	In Thousands	
	1988	1987
Webster County, Iowa		
Matures December 1, 1996, with interest at 13% per annum payable semi-annually (US $3,900)	$ 4,652	$ 5,069
City of Portage, Indiana		
Matures in four remaining equal annual installments on March 1, 1989 to 1992 inclusive with interest at 12.25% per annum, payable quarterly secured by assets of PCS Sales (Indiana), Inc. (US $2,000)	2,385	3,250
	7,037	8,319
Less amounts due within one year	596	650
	$ 6,441	$ 7,669

Principal payments due on long-term debt for the next five years are as follows: (thousands) 1989 – $596
1990 – $596
1991 – $596
1992 – $597
1993 – $ 0

Note 6

Lease Commitments

The corporation has long-term lease agreements, the longest of which expires in 2005. Future minimum lease payments under these capital and operating leases will be approximately as follows:

	In Thousands	
Years ending December 31	Operating	Capital
1989	$ 13,019	$ 16,859
1990	8,335	16,859
1991	5,788	16,859
1992	5,159	16,859
1993	2,602	16,859
Subsequent years	13,869	97,490
		181,785
Less amount representing interest		81,927
Present value of minimum capital lease payments		99,858
Current obligation		4,887
Long-term portion		$ 94,971

Note 7

Province of Saskatchewan Equity Advances

	In Thousands	
	1988	1987
Saskatchewan Heritage Fund	$ –	$ 418,554
Crown Investments Corporation of Saskatchewan	1,100,000	724,107
	$1,100,000	$1,142,661

During the year the Saskatchewan Heritage Fund was repaid $418.554 million and Crown Investments Corporation advanced additional equity of $418.554 million. The corporation repaid $42.661 million to Crown Investments Corporation to result in the final value of $1,100 million.

Note 8

Interest Expense

	In Thousands	
	1988	1987
Interest on		
Long-term debt	$ 938	$ 31,637
Short-term debt	86	10,404
Obligations under capital leases	12,469	12,929
	13,493	54,970
Less capitalized interest	–	19,009
	$ 13,493	$ 35,961

Note 9

Income Taxes

By virtue of the fact that the corporation is wholly owned by the Province of Saskatchewan, neither it nor its wholly owned subsidiaries is subject to federal or provincial income taxes in Canada. Certain income and assets of its subsidiaries and affiliates are subject to federal and state taxes in the United Sates.

Note 10

Contractual Obligations and Commitments

PCS Sales is a shareholder in Canpotex Limited, an offshore marketing company. Should any operating losses be incurred by Canpotex Limited, they will be proportionately shared by its shareholders. PCS Sales is also a guarantor of the performance by Canpotex Limited of certain rail car leases.

PCS Sales and PCS Mining have guaranteed a mortgage loan not to exceed $4,300,000 for warehousing facilities in Danville, Illinois.

Note 11

Related Party Transactions

Included in these consolidated financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan crown controlled departments, agencies and corporations with which the corporation is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to or from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

Note 12

Pensions

Substantially all employees of the corporation are participants in either a defined contribution or a defined benefit based pension plan. The corporation's obligations to the defined contribution plan are limited to making regular payments to the plan to match contributions made by the employees for current service. Based on the latest actuarial valuation of the defined benefit pension plan conducted as at December 31, 1986 and updated as at December 31, 1988, accrued pension benefits were $3,366,428 and the market values of the assets of the plans were $3,769,795.

Note 13

Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

Officers

Potash Corporation of Saskatchewan

Charles E. Childers
President & CEO

John Gugulyn
Vice President
Corporate Affairs & Human Resources

John L.M. Hampton
Vice President
General Counsel & Secretary

Barry E. Humphreys
Vice President
Finance & Accounting

Richard J. Lacroix
Vice President
Technical Services

Peter Braun
Director
Internal Audit

PCS Mining

James J. Bubnick
President

William H. Eatock
General Manager
Allan Division

J. Wilbert Donohue
General Manager
Cory Division

Garth M. Moore
General Manager
Lanigan Division

Dale P. Jackson
General Manager
Rocanville Division

PCS Sales

William J. Doyle
President

Douglas E. Logsdail
Executive Vice President

Jack O. Ellis
Senior Director
Product Management

William G. Irvine
Director
Transportation & Distribution

Carlos W. Smith
Director
U.S. Sales

Board of Directors

Honourable J. Gary Lane, Q.C.
Minister of Finance
Province of Saskatchewan
Minister in Charge, PCS

Paul J. Schoenhals
Chairman of the Board, PCS
Saskatoon

Charles E. Childers
President & CEO, PCS
Saskatoon

Louie Gierstorfer
President, Pirate Drilling Limited
Coleville

Dallas J. Howe
President, BDM Systems Ltd.
Saskatoon

Joe V. Helgason
Retired Farmer
Foam Lake

Darlene J. Hincks
City Councillor & Businesswoman
Regina

Roger W. Kaeding
Farmer
Churchbridge

Lloyd J. Martin
Partner, Parkland Distributors Inc. and
C.B. Farm Ltd.
Ituna

John V. Remai
President & CEO, Remai Investment Co. Ltd.
Saskatoon

John D. Ritchie
Vice President, Wood Gundy Limited
Regina

Dr. Andrew Schmitz
Professor, University of Saskatchewan
Saskatoon

Doris M. Young
Manager, Meadow Lake Golf Course
Meadow Lake

Potash Corporation of Saskatchewan	Suite 500 122 - 1st Avenue South Saskatoon, Saskatchewan S7K 7G3 Phone: (306) 933-8500 Telex: 074-2699 Fax: (306) 652-2699
PCS Sales	Suite 120 3030 Salt Creek Lane Arlington Heights, Illinois 60005 Phone: (312) 392-2200 Twx: 910-997-0923 Fax: (312) 392-2598
PCS Mining Divisions:	
Allan Division	Allan, Saskatchewan S0K 0C0 Phone: (306) 257-3312 Fax: (306) 257-4240
Cory Division	P.O. Box 1320 Saskatoon, Saskatchewan S7K 3N9 Phone: (306) 382-0525 Fax: (306) 384-9132
Esterhazy Division	P.O. Box 1060 Esterhazy, Saskatchewan S0A 0X0 Phone: (306) 745-6601
Lanigan Division	P.O. Box 3100 Lanigan, Saskatchewan S0K 2M0 Phone: (306) 365-2030 Fax: (306) 365-2169
Rocanville Division	Rocanville, Saskatchewan S0A 3L0 Phone: (306) 645-2870 Fax: (306) 645-2733